

SEITEL INC  
Form 10-Q  
August 14, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-10165

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SEITEL, INC.  
(Exact name of registrant as specified in its charter)

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|   |   |
|---|---|
| Delaware<br>(State or other jurisdiction of<br>incorporation or organization) | 76-0025431<br>(I.R.S. Employer<br>Identification No.) |
|---|---|

|   |                     |
|---|---------------------|
| 10811 S. Westview Circle Drive<br>Building C, Suite 100<br>Houston, Texas<br>(Address of principal executive offices)<br>(713) 881-8900<br>(Registrant's telephone number, including area code) | 77043<br>(Zip Code) |
|---|---------------------|

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

(Explanatory Note: The registrant is a voluntary filer and is therefore not subject to the filing requirements of the Securities Exchange Act of 1934. However, during the preceding 12 months, the registrant has filed all reports that it would have been required to file by Section 13 or 15(d) of the Securities Exchange Act of 1934 if the registrant was subject to the filing requirements of the Securities Exchange Act of 1934 during such timeframe.)

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

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filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of August 9, 2018, there were 100 shares of the Company’s common stock outstanding, par value \$.001 per share.

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## PART I—FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS  
 SEITEL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands, except share and per share amounts)

|   | (Unaudited)<br>June 30,<br>2018 | December 31,<br>2017 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>   |                                 |                      |
| Cash and cash equivalents   | \$ 75,153                       | \$ 70,581            |
| Receivables   |                                 |                      |
| Trade, net of allowance for doubtful accounts of \$175 and \$176, respectively                                  | 9,868                           | 23,330               |
| Notes and other   | 2,583                           | 2,617                |
| Due from Seitel Holdings, Inc.  | 1,198                           | 1,191                |
| Seismic data library, net of accumulated amortization of \$1,276,498 and \$1,274,808, respectively              | 64,594                          | 74,542               |
| Property and equipment, net of accumulated depreciation and amortization of \$17,140 and \$17,346, respectively | 1,426                           | 1,599                |
| Prepaid expenses, deferred charges and other  | 4,915                           | 1,842                |
| Intangible assets, net of accumulated amortization of \$48,663 and \$49,485, respectively                       | 900                             | 900                  |
| Goodwill  | 178,980                         | 187,243              |
| Deferred income taxes   | 219                             | 203                  |
| <b>TOTAL ASSETS</b>   | <b>\$ 339,836</b>               | <b>\$ 364,048</b>    |
| <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>   |                                 |                      |
| <b>LIABILITIES</b>  |                                 |                      |
| Accounts payable and accrued liabilities  | \$ 13,840                       | \$ 20,198            |
| Income taxes payable  | 33                              | 2,777                |
| Senior Notes  | 248,834                         | 248,142              |
| Obligations under capital leases  | 1,166                           | 1,363                |
| Deferred revenue  | 15,186                          | 13,095               |
| Deferred income taxes   | 748                             | 1,359                |
| <b>TOTAL LIABILITIES</b>  | <b>279,807</b>                  | <b>286,934</b>       |
| <b>COMMITMENTS AND CONTINGENCIES (Note I)</b>   |                                 |                      |
| <b>STOCKHOLDER'S EQUITY</b>   |                                 |                      |
| Common stock, par value \$.001 per share; 100 shares authorized, issued and outstanding                         | —                               | —                    |
| Additional paid-in capital  | 400,595                         | 400,592              |
| Retained deficit  | (326,194 )                      | (314,671 )           |
| Accumulated other comprehensive loss  | (14,372 )                       | (8,807 )             |
| <b>TOTAL STOCKHOLDER'S EQUITY</b>   | <b>60,029</b>                   | <b>77,114</b>        |
| <b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>   | <b>\$ 339,836</b>               | <b>\$ 364,048</b>    |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SEITEL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)  
 (In thousands)

|  | Three Months |            | Six Months Ended |             |
|--|--------------|------------|------------------|-------------|
|  | Ended        |            | June 30,         |             |
|  | June 30,     |            | June 30,         |             |
|  | 2018         | 2017       | 2018             | 2017        |
| REVENUE                                  | \$12,324     | \$23,700   | \$31,813         | \$44,295    |
| EXPENSES:                                |              |            |                  |             |
| Depreciation and amortization            | 8,081        | 21,969     | 18,392           | 44,232      |
| Impairment of goodwill                   | 4,496        | —          | 4,496            | —           |
| Cost of sales                            | 88           | 33         | 105              | 43          |
| Selling, general and administrative      | 4,807        | 5,005      | 10,514           | 10,651      |
|  | 17,472       | 27,007     | 33,507           | 54,926      |
| LOSS FROM OPERATIONS                     | (5,148 )     | (3,307 )   | (1,694 )         | (10,631 )   |
| Interest expense, net                    | (6,032 )     | (6,187 )   | (12,086 )        | (12,397 )   |
| Foreign currency exchange gains (losses) | 470          | (34 )      | 1,112            | (85 )       |
| Other income                             | 63           | 96         | 72               | 96          |
| Loss before income taxes                 | (10,647 )    | (9,432 )   | (12,596 )        | (23,017 )   |
| Provision (benefit) for income taxes     | (836 )       | 204        | (882 )           | (2 )        |
| NET LOSS                                 | \$(9,811 )   | \$(9,636 ) | \$(11,714 )      | \$(23,015 ) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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## SEITEL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)

(In thousands)

|  | Three Months<br>Ended<br>June 30, |           | Six Months Ended<br>June 30, |            |
|--|-----------------------------------|-----------|------------------------------|------------|
|  | 2018                              | 2017      | 2018                         | 2017       |
| Net loss                                 | \$(9,811 )                        | \$(9,636) | \$(11,714)                   | \$(23,015) |
| Foreign currency translation adjustments | (2,369 )                          | 2,569     | (5,565 )                     | 3,391      |
| Comprehensive loss                       | \$(12,180)                        | \$(7,067) | \$(17,279)                   | \$(19,624) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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## SEITEL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY (Unaudited)

(In thousands, except share amounts)

|  | Common<br>Stock<br>Shares | Amount | Additional<br>Paid-In<br>Capital | Retained<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss |
|--|---------------------------|--------|----------------------------------|---------------------|---|
| Balance, December 31, 2017                     | 100                       | \$     | —\$ 400,592                      | \$(314,671)         | \$ (8,807 )                                   |
| Amortization of stock-based compensation costs | —                         | —      | 3                                | —                   | —   |
| Net loss                                       | —                         | —      | —                                | (11,714 )           | —   |
| Impact of adoption of new accounting standard  | —                         | —      | —                                | 191                 | —   |
| Foreign currency translation adjustments       | —                         | —      | —                                | —                   | (5,565 )                                      |
| Balance, June 30, 2018                         | 100                       | \$     | —\$ 400,595                      | \$(326,194)         | \$ (14,372 )                                  |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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## SEITEL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

|  | Six Months Ended |            |
|--|------------------|------------|
|  | June 30,         |            |
|  | 2018             | 2017       |
| Cash flows from operating activities:                                    |                  |            |
| Reconciliation of net loss to net cash provided by operating activities: |                  |            |
| Net loss   | \$(11,714)       | \$(23,015) |
| Depreciation and amortization  | 18,392           | 44,232     |
| Impairment of goodwill   | 4,496            | —          |
| Deferred income tax benefit  | (977 )           | (585 )     |
| Foreign currency exchange losses (gains)                                 | (1,112 )         | 85         |
| Amortization of deferred financing costs                                 | 692              | 627        |
| Amortization of stock-based compensation                                 | 3                | 6          |
| Gain on sale of seismic data and property and equipment                  | (54 )            | (96 )      |
| Non-cash revenue   | (97 )            | (1,407 )   |
| Decrease in receivables  | 13,517           | 6,441      |
| Increase in other assets   | (1,434 )         | (165 )     |
| Increase (decrease) in deferred revenue                                  | 2,451            | (2,888 )   |
| Decrease in accounts payable and other liabilities                       | (5,228 )         | (2,381 )   |
| Net cash provided by operating activities                                | 18,935           | 20,854     |
| Cash flows from investing activities:                                    |                  |            |
| Cash invested in seismic data  | (13,991 )        | (16,101 )  |
| Cash paid to acquire property and equipment                              | (173 )           | (250 )     |
| Cash from sale of seismic data and property and equipment                | 58               | 3          |
| Advances to Seitel Holdings, Inc.  | (7 )             | (8 )       |
| Net cash used in investing activities                                    | (14,113 )        | (16,356 )  |
| Cash flows from financing activities:                                    |                  |            |
| Principal payments on capital lease obligations                          | (138 )           | (112 )     |
| Net cash used in financing activities                                    | (138 )           | (112 )     |
| Effect of exchange rate changes  | (112 )           | 460        |
| Net increase in cash and cash equivalents                                | 4,572            | 4,846      |
| Cash and cash equivalents at beginning of period                         | 70,581           | 55,997     |
| Cash and cash equivalents at end of period                               | \$75,153         | \$60,843   |
| Supplemental disclosure of cash flow information:                        |                  |            |
| Cash paid during the period for:   |                  |            |
| Interest   | \$11,946         | \$11,940   |
| Income taxes, net of refunds received                                    | \$3,681          | \$690      |
| Supplemental schedule of non-cash investing and financing activities:    |                  |            |
| Additions to seismic data library  | \$—              | \$1,250    |

The accompanying notes are an integral part of these condensed consolidated financial statements.



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## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

June 30, 2018

## NOTE A-BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Seitel, Inc. and its subsidiaries (collectively, the “Company”) have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. In preparing the Company’s financial statements, a number of estimates and assumptions are made by management that affect the accounting for and recognition of assets, liabilities, revenues and expenses. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for any other quarter of 2018 or for the year ending December 31, 2018. The condensed consolidated balance sheet of the Company as of December 31, 2017 has been derived from the audited balance sheet of the Company as of that date. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company’s \$250.0 million 9½% senior notes (the “9½% Senior Notes”) mature on April 15, 2019. While the Company is currently evaluating its options to refinance all or a portion of this debt, no firm plans for refinancing have been reached. As a result of the debt maturing in less than one year from the issuance of these financial statements and the Company not having firm plans in place related to a refinancing, substantial doubt is raised about the Company’s ability to continue as a going concern. The ability to continue as a going concern is dependent upon the Company’s ability to restructure or refinance at least a portion of its outstanding debt as it matures. There is no assurance that the Company will be able to refinance or extend principal payments due at maturity or pay them with proceeds of other capital transactions and the Company’s cash flow may not be sufficient to repay all such maturing debt. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Effective January 1, 2018, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” utilizing the modified retrospective approach, recognizing approximately \$0.2 million that was in deferred revenue as of December 31, 2017 to retained earnings. This amount represents the cumulative catch-up of revenue recognition on uncompleted contracts as of January 1, 2018 on non-exclusive data licenses (resale licenses) of seismic surveys that are in the process of being created and where the resale licensing customers have been granted the same legally enforceable rights and access to and use of the results of the acquisition work performed as the original acquisition underwriting clients. Prior to adoption of the new standard, the Company recognized revenue on these resale licenses when the data was available for delivery. Upon adoption, the Company now recognizes the revenue for these specific resale licensing agreements during the remaining survey creation period, resulting in revenue being recognized earlier. Other than this change in policy, ongoing application of the new standard will not have a significant impact to the Company’s revenue recognition but has resulted in expanded disclosures. See further discussion and expanded revenue recognition disclosures at Note B - “Revenue Recognition.”

Effective April 1, 2018, the Company adopted ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” The new standard simplifies the measurement of goodwill impairment by eliminating Step 2 from the goodwill impairment test. Prior to adoption of the new standard, Step 2 measured a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. In order to compute the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following the same procedure that would be required for purchase price allocation in a business combination. Under the new standard, a goodwill impairment loss is measured using the difference between the carrying amount and the fair value of the reporting unit limited to the total carrying amount of that reporting unit’s goodwill. The Company performed a

goodwill impairment test as of June 30, 2018 utilizing the simplified method as prescribed by ASU No. 2017-04. See further discussion at Note D - "Goodwill and Other Intangibles."

**NOTE B-REVENUE RECOGNITION**

Revenues are primarily derived from licensing of seismic data to customers for fixed consideration. These seismic data licenses represent a single performance obligation and revenue is recognized when a contract with a customer exists and the Company satisfies its performance obligation to the customer either over time in the case of revenue from data acquisition or at a point in time for the majority of its revenue from non-exclusive licenses. If a contract contains multiple performance obligations

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(seismic data license and reproduction or data processing services), the Company allocates the transaction price to the related performance obligations based on their relative standalone selling prices typically using the residual approach. The Company does not adjust the amount of consideration per the contract for the effects of a significant financing component when the Company expects, at contract inception, that the period between the transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less, which is in substantially all cases. Additionally, the Company does not typically extend payment terms beyond one year in its contracts with customers.

The following table presents the Company's revenues disaggregated by component (in thousands):

|                                  | Three Months<br>Ended<br>June 30,<br>2018 |          | Six Months<br>Ended<br>June 30,<br>2017 |          |
|----------------------------------|---|----------|---|----------|
| Acquisition underwriting revenue | \$1,432                                   | \$4,359  | \$4,633                                 | \$11,272 |
| Resale licensing revenue         | 10,257                                    | 18,878   | 26,073                                  | 32,073   |
| Total seismic revenue            | 11,689                                    | 23,237   | 30,706                                  | 43,345   |
| Solutions and other              | 635                                       | 463      | 1,107                                   | 950      |
| Total revenue                    | \$12,324                                  | \$23,700 | \$31,813                                | \$44,295 |

#### Revenue from Data Acquisition

The Company generates revenue when it creates a new seismic survey that is initially licensed by one or more of its customers to use the resulting data. The payments for the initial licenses, representing the fixed consideration stated per the contract, are sometimes referred to as acquisition underwriting or prefunding. Customers make periodic payments throughout the new survey creation period based on milestones stated per the contract, which generally correspond to costs incurred and work performed. These payments are non-refundable. Contracts signed up to the time the Company makes a firm commitment to create the new seismic survey are considered acquisition underwriting. Any subsequent license of the data while the survey is in progress or once it is completed is considered a resale license (see "Revenue from Non-Exclusive Data Licenses").

The license price and acquisition services provided by the Company represent a single performance obligation as the data acquisition services are not distinct from the corresponding data license; therefore, acquisition underwriting revenue is recognized throughout the new survey creation period using the proportional performance method. The proportional performance amount at each reporting period is calculated using an input method based upon costs incurred and work performed to date as a percentage of total estimated costs and work required. Management believes that this method is the most reliable and representative measure of progress for its new survey creation projects and satisfaction of its performance obligation for recognition of its acquisition underwriting revenue. On average, the duration of the new survey creation process is approximately 12 to 18 months.

Under the contracts related to the new survey, the Company creates new seismic data designed in conjunction with its customers and specifically suited to the geology of the area using the most appropriate technology available. The Company outsources the substantial majority of the work required to complete data acquisition projects to third-party contractors. The Company's payments to these third-party contractors comprise the substantial majority of the total estimated costs of the projects and are paid throughout the new survey creation period. A typical survey includes specific activities required to complete the survey creation, each of which has value to the customers. Typical activities, that often occur concurrently, include:

- permitting for land access, mineral rights, and regulatory approval;
- surveying;
- drilling for the placement of energy sources;
- recording the data in the field; and
- processing the data.

The customers paying for the initial licenses to the data created from a new survey have access to and receive legally enforceable rights to any resulting product of each activity described above. The customers also receive access to and use of the newly acquired, processed data.

The customers' access to and use of the results of the work performed and of the newly acquired, processed data is governed by a master license agreement, which is a separate agreement from the acquisition contract. The Company's acquisition contracts require the customer either to have a master license agreement in place or to execute one at the time the acquisition contract is signed. The Company typically maintains sole ownership of the newly acquired data, which is added to its library, and is free to license the data to other customers.

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### Revenue from Non-Exclusive Data Licenses

The Company recognizes a substantial portion of its revenue from licensing of data that has already been created and is available for delivery. This seismic data license represents a single performance obligation that is typically recognized at a point in time. The revenue is sometimes referred to as resale licensing revenue, late sales or shelf sales.

These sales fall under the following four basic forms of non-exclusive license contracts, each of which is subject to the terms and conditions contained in a customer's master license agreement.

• **Specific license contract**—The customer licenses specific data from the data library, including data currently in progress, at the time the contract is entered into and holds this license for a long-term period.

• **Library card license contract**—The customer initially receives only the right to access a certain amount of data. The customer selects which data to access and hold long-term under its license agreement. The length of the selection period under a library card contract is limited in time and varies from customer to customer.

• **Review and possession license contract**—The customer receives the right to review a certain quantity of data for a limited period of time. During the review period, the customer may select specific data from that available for review to hold long-term under its license agreement. Any data not selected for long-term licensing must be returned to the Company at the end of the review period.

• **Review only license contract**—The customer obtains rights to review a certain quantity of data for a limited period of time, but does not obtain the right to select specific data to hold long-term.

The Company's non-exclusive license contracts specify the following:

- that all customers must also have in place or execute a master license agreement that governs the use of all data received under each non-exclusive license contract;
- the specific payment terms, generally ranging from 30 days to 12 months, and that such payments are non-cancelable and non-refundable;
- the actual data that is accessible by the customer; and
- that the data is licensed in its present form, as is, where is, and that the Company is under no obligation to make any enhancements, modifications or additions to the data unless specific terms to the contrary are included.

Non-exclusive licenses are provided to each customer as a right to use the seismic data licensed as it exists at contract execution. Therefore, revenue from the non-exclusive licensing of seismic data is typically recognized at the point in time when the following criteria are met:

- the Company has an approved agreement with the customer;
- the transaction price is determinable;
- collection of consideration (transaction price) is probable;
- the customer has selected the specific data or the contract has expired without full selection; and
- the data is currently available for delivery.

Copies of the licensed data are available to the customer immediately upon request.

For licenses that have been invoiced for which payment is due or has been received, but that have not met the aforementioned criteria, revenue is deferred. This normally occurs under the library card, review and possession or review only license contracts because the data selection may occur over time.

In situations where the non-exclusive license provided to the customer is for seismic data in progress and the resale licensing customer is granted the same legally enforceable rights and access to and use of the results of the acquisition work performed as the original acquisition underwriting clients, effective January 1, 2018, the Company recognizes such resale revenue over time during the remaining survey creation period using the proportional performance method, instead of when the data is available for delivery. This change is due to the adoption of ASU 2014-09 as discussed in Note A - "Basis of Presentation."

Revenue from Non-Monetary Exchanges

In certain cases, the Company will take ownership of a customer's seismic data or revenue interest therein (collectively referred to as "data") in exchange for a non-exclusive license to selected seismic data from the Company's library or, in some cases, reproduction or data processing services. In connection with specific data acquisition contracts, the Company may choose to

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receive both cash and ownership of seismic data from the customer as consideration for the underwriting of new data acquisition. These transactions are referred to as non-monetary exchanges. A non-monetary exchange for data always complies with the following criteria:

- the data licensed to a customer is always distinct from the data received from that customer;
- the customer forfeits ownership of the data received by the Company; and
- the Company retains ownership in the data licensed.

In non-monetary exchange transactions, the Company records a data library asset for the seismic data received at the time the contract is entered into and recognizes revenue on the transaction in equal value in accordance with its policy on revenue from resale data licenses or data acquisition, or as services are provided by our Seitel Solutions business unit (“Solutions”), as applicable. The resale data license to the customer is in the form of one of the four basic forms of contracts discussed above. These transactions are valued at the fair value of the data received by the Company or the fair value of the license granted or services provided to the customer, whichever is more readily determinable.

Fair value of the data exchanged is determined using a multi-step process as follows:

First, the Company considers the value of the data received from the customer. In determining the value of the data received, the Company considers the age, quality, current demand and future marketability of the data and, in the case of 3D seismic data, the cost that would be required to create the data. In addition, the Company applies a limitation on the value it assigns per square mile on the data received.

Second, the Company determines the value of the license granted to the customer. Typically, the range of cash transactions by the Company for licenses of similar data during the prior six months are evaluated. In evaluating the range of cash transactions, the Company does not consider transactions that are disproportionately high or low.

Due to the Company’s revenue recognition policies, revenue recognized on non-monetary exchange transactions may not occur at the same time that the seismic data acquired is recorded as an asset. The activity related to non-monetary exchanges was as follows (in thousands):

|  | Three<br>Months<br>Ended<br>June 30,<br>2018 | Six<br>Months<br>Ended<br>June 30,<br>2017 |
|--|--|--|
| Seismic data library additions                                     | \$-\$1,000                                   | \$-\$1,250                                 |
| Revenue recognized on specific data licenses or selections of data | 631,000                                      | 631,250                                    |
| Revenue recognized related to acquisition contracts                | —87  | —126                                       |
| Revenue recognized related to Solutions and other revenue          | 2931   | 3431                                       |

#### Revenue from Solutions

Revenue from Solutions is recognized as the services for reproduction and delivery of seismic data are provided to customers.

**Trade Receivables:** Trade receivables include amounts billed and currently due from customers and unbilled amounts typically arising from data acquisition contracts when revenue recognized exceeds the amounts billed to the customer, and right to payment is not just subject to the passage of time. Trade receivables are stated at their net estimated realizable value. The Company maintains an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected.

**Deferred Commissions:** The Company’s incremental direct costs of obtaining a contract, which primarily consist of sales commissions, are recognized as expense as revenue is recognized on the corresponding contract. Therefore, sales commissions are deferred on licenses that have been invoiced for which payment is due or has been received, but that have not met the criteria needed for revenue recognition. Deferred commissions are included in prepaid expenses, deferred charges and other assets in the consolidated balance sheets and were \$0.3 million and \$0.2 million as of June 30, 2018 and December 31, 2017, respectively.

Contract Liabilities: The Company's contract liabilities consist of billings in excess of revenue recognized and are included in deferred revenue in the consolidated balance sheets. The Company's deferred revenue balance is comprised of (i) deferred revenue on data acquisition projects, (ii) data licensing contracts where selection of specific data had not yet occurred, (iii) data licensing contracts with data products not yet available and (iv) data licensing contracts where any other revenue recognition criteria has not yet been met. The deferred revenue will be recognized as work progresses on the data acquisition contracts, when selection of specific data is made by the customer, upon expiration of the data selection period specified in the data



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licensing contracts if full selection has not occurred, as the data products become available or as all of the revenue recognition criteria are met. Revenue recognized that had been previously deferred was \$2.6 million during the six months ended June 30, 2018 and \$6.1 million during the six months ended June 30, 2017.

At June 30, 2018, we had a deferred revenue balance of \$15.2 million, compared to the December 31, 2017 balance of \$13.1 million. The deferred revenue balance as of June 30, 2018 is scheduled to be recognized no later than the following, based on the contractual expiration of the selection period or the Company's estimate of progress on acquisition projects and the availability of data products, although some revenue may be recognized earlier (in thousands):

|                     |          |
|---------------------|----------|
| 2018                | \$13,089 |
| 2019                | 155      |
| 2020 and thereafter | 1,942    |

Remaining Performance Obligations: Remaining performance obligations represents the transaction price of executed acquisition contracts for which work has not been performed. In addition to the \$15.2 million total deferred revenue balance as of June 30, 2018, an additional \$7.3 million related to the aggregate amount of transaction price allocated to remaining performance obligations remained. The Company expects to recognize revenue of approximately \$7.0 million during 2018 with the remainder in 2019.

**NOTE C-SEISMIC DATA LIBRARY**

The Company's seismic data library consists of seismic surveys that are offered for license to customers on a non-exclusive basis. Costs associated with creating, acquiring or purchasing the seismic data library are capitalized and amortized principally on the income forecast method subject to a straight-line amortization period of four years, applied on a quarterly basis at the individual survey level.

**Costs of Seismic Data Library**

For newly created data, the capitalized costs include costs paid to third parties for the acquisition of data and related permitting, surveying and other activities associated with the data creation activity. In addition, the Company capitalizes certain internal costs related to processing the created data and reprocessing existing data. Such costs include salaries and benefits of the Company's processing personnel and certain other costs incurred for the benefit of the processing activity. The Company believes that the internal processing costs capitalized are not greater than, and generally are less than, those that would be incurred and capitalized if such activity were performed by a third party. Capitalized costs for internal data processing were \$0.6 million for each of the three months ended June 30, 2018 and 2017 and \$1.2 million and \$1.3 million for the six months ended June 30, 2018 and 2017, respectively.

For data received through a non-monetary exchange, the Company capitalizes an amount equal to the fair value of the data received by the Company or the fair value of the license granted or services provided to the customer, whichever is more readily determinable. See Note B – "Revenue Recognition – Revenue from Non-Monetary Exchanges" for discussion of the process used to determine fair value.

For purchased seismic data, the Company capitalizes the purchase price of the acquired data.

**Data Library Amortization**

The Company amortizes each survey in its seismic data library using the greater of the amortization that would result from the application of the income forecast method to each survey's revenue, subject to a minimum amortization rate, or a straight-line basis over four years, commencing at the time such survey is completed and available for licensing to customers on a non-exclusive basis.

The Company applies the income forecast method by forecasting the ultimate revenue expected to be derived from a particular data library component over the estimated useful life of each survey comprising part of such component. This forecast is made by the Company annually and reviewed quarterly. If, during any such review, the Company determines that the ultimate revenue for a library component is expected to be significantly different than the most recent estimate of total revenue for such library component, the Company revises the amortization rate attributable to future revenue from each survey in such component. The Company applies a minimum amortization rate of 70%. In addition, in connection with the forecast reviews and updates, the Company evaluates the recoverability of its seismic data library investment, and if required, records an impairment charge with respect to such investment. See discussion on "Seismic Data Library Impairment" below.

The greater of the income forecast or straight-line amortization policy is applied quarterly on a cumulative basis at the individual survey level. Under this policy, the Company first records amortization using the income forecast method. The

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cumulative amortization recorded for each survey is then compared with the cumulative straight-line amortization. If the cumulative straight-line amortization is higher for any specific survey, additional amortization expense is recorded, resulting in accumulated amortization being equal to the cumulative straight-line amortization for such survey. This requirement is applied regardless of future-year revenue estimates for the library component of which the survey is a part and does not consider the existence of deferred revenue with respect to the library component or to any survey.

The actual aggregate rate of amortization depends on the specific seismic surveys licensed and selected by the Company's customers during the period and the amount of straight-line amortization recorded. The income forecast amortization rates can vary by component and, as of July 1, 2018, is 70% for all components. For those seismic surveys which have been fully amortized, no amortization expense is required on revenue recorded.

**Seismic Data Library Impairment**

The Company evaluates its seismic data library investment by grouping individual surveys into components based on its operations and geological and geographical trends, resulting in the following data library segments for purposes of evaluating impairments: (I) North America 3D onshore comprised of the following components: (a) Texas Gulf Coast, (b) Eastern Texas, (c) Permian, (d) Anadarko Basin in North Texas/Oklahoma, (e) Southern Louisiana/Mississippi, (f) Northern Louisiana, (g) Rocky Mountains, (h) Utica/Marcellus in Pennsylvania, Ohio and West Virginia, (i) other United States, (j) Montney in British Columbia and Alberta, (k) Horn River in British Columbia, (l) Duvernay in Alberta and (m) other Canada; (II) United States 2D; (III) Canada 2D; (IV) Mexico; (V) Gulf of Mexico offshore; and (VI) international data outside North America. The Company believes that these library components constitute the lowest levels of independently identifiable cash flows.

The Company evaluates its seismic data library investment for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company considers the level of sales performance in each component compared to projected sales, as well as industry conditions, among others, to be key factors in determining when its seismic data investment should be evaluated for impairment. In evaluating sales performance of each component, the Company generally considers five consecutive quarters of actual performance below forecasted sales to be an indicator of potential impairment.

The impairment evaluation is based first on a comparison of the undiscounted future cash flows over each component's remaining estimated useful life with the carrying value of each library component. If the undiscounted cash flows are equal to or greater than the carrying value of such component, no impairment is recorded. If undiscounted cash flows are less than the carrying value of any component, the forecast of future cash flows related to such component is discounted to fair value and compared with such component's carrying amount. The difference between the library component's carrying amount and the discounted future value of the expected revenue stream is recorded as an impairment charge.

For purposes of evaluating potential impairment losses, the Company estimates the future cash flows attributable to a library component by evaluating, among other factors, historical and recent revenue trends, oil and gas prospectivity in particular regions, general economic conditions affecting its customer base and expected changes in technology and other factors that the Company deems relevant. The cash flow estimates exclude expected future revenues attributable to non-monetary data exchanges and future data creation projects.

The estimation of future cash flows and fair value is highly subjective and inherently imprecise. Estimates can change materially from period to period based on many factors, including those described in the preceding paragraph.

Accordingly, if conditions change in the future, the Company may record impairment losses relative to its seismic data library investment, which could be material to any particular reporting period.

The Company did not have any impairment charges during the six months ended June 30, 2018 or 2017.

**NOTE D-GOODWILL AND OTHER INTANGIBLES**

At least annually on October 1st, and more frequently if warranted, the Company assesses its goodwill and indefinite lived intangible assets for impairment. Due to a change in ownership that occurred at Seitel, Inc.'s parent company level in July 2018 (the "July 2018 Transaction"), the Company performed a goodwill impairment test as of June 30, 2018 and determined that the carrying amount of the reporting unit was less than its fair value and recorded a goodwill

impairment loss of approximately \$4.5 million. The fair value of the reporting unit used for the goodwill impairment test was determined based on the purchase price paid in the July 2018 Transaction. See Note L - "Subsequent Events" for further discussion of the July 2018 Transaction.

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No impairment losses were recorded for goodwill in prior periods. Changes in the carrying amount of goodwill for the six months ended June 30, 2018 were as follows (in thousands):

|                              | June 30,<br>2018 |
|------------------------------|------------------|
| Balance at beginning of year | \$187,243        |
| Impairment loss              | (4,496 )         |
| Translation adjustments      | (3,767 )         |
| Balance at June 30, 2018     | \$178,980        |

In addition to goodwill, the Company also assessed its tradename indefinite lived intangible assets for impairment as of June 30, 2018 and determined that those assets were not impaired.

**NOTE E-INCOME TAXES**

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was signed into law making significant changes to the Internal Revenue Code. The changes include, but are not limited to, a decrease in the U.S. corporate tax rate from 35% to 21%, the transition of U.S. international taxation from a worldwide tax system to a territorial system, allowing for immediate expensing of certain qualified property, modifications to many business deductions and credits and providing various tax incentives. Due to the complexities involved in the accounting for the enactment of the new law, the Securities and Exchange Commission staff released Staff Accounting Bulletin 118 on December 23, 2017, which allowed companies to record a provisional impact of the Tax Act during a measurement period, not to exceed one year, in situations where companies do not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Tax Act for the reporting period which includes enactment. The Company recorded its provisional estimates related to the realizability of the Company's alternative minimum tax credit and taxes on mandatory deemed repatriation of foreign earnings as of December 31, 2017 which resulted in a benefit to income taxes of \$2.4 million. The Company is finalizing its determination of cumulative undistributed foreign earnings through December 31, 2017 and as of June 30, 2018, currently estimates the amount to be positive earnings and profits. However, the one-time transition tax on the deemed repatriation is expected to be offset against the Company's 2017 net operating loss; therefore, no additional tax expense has been recorded.

The Company will continue to evaluate the Tax Act and adjust the provisional amounts as additional information is obtained and will complete its analysis no later than the fourth quarter of 2018. There were no changes during the second quarter or first six months of 2018 to previous estimates and amounts recorded.

**NOTE F-DEBT**

The following is a summary of the Company's debt (in thousands):

|                                       | June 30,<br>2018 | December 31,<br>2017 |
|---------------------------------------|------------------|----------------------|
| 9½% Senior Notes                      | \$250,000        | \$ 250,000           |
| Less: unamortized debt issuance costs | (1,166 )         | (1,858 )             |
|                                       | \$248,834        | \$ 248,142           |

9½% Senior Unsecured Notes: On March 20, 2013, the Company issued, in a private placement, \$250.0 million aggregate principal amount of its 9½% Senior Notes. As required by their terms, the 9½% Senior Notes were exchanged for senior notes of like amounts and terms in a publicly registered exchange offer in August 2013. The 9½% Senior Notes mature on April 15, 2019. Interest is payable in cash, semi-annually on April 15 and October 15 of each year. The 9½% Senior Notes are unsecured and are jointly and severally guaranteed by substantially all of the Company's significant 100% owned U.S. subsidiaries on a senior basis. The 9½% Senior Notes contain restrictive covenants which limit the Company's ability to, among other things, incur additional indebtedness, incur liens, pay dividends and make other restricted payments, engage in transactions with affiliates, and complete mergers, acquisitions and sales of assets.

Upon a change of control (as defined in the indenture), each holder of the 9½% Senior Notes will have the right to require the Company to offer to purchase all of such holder's notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest. The July 2018 Transaction described in Note L - "Subsequent Events" did not result in

a change of control as defined in the indenture.

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## NOTE G-FAIR VALUE MEASUREMENTS

Authoritative guidance on fair value measurements provides a framework for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. In measuring the fair value of the Company's assets and liabilities, market data or assumptions are used that the Company believes market participants would use in pricing an asset or liability, including assumptions about risk when appropriate. The Company's assets that are measured at fair value on a recurring basis include the following (in thousands):

|                       | Total    | Fair Value Measurements Using                      |   |                                     |
|-----------------------|----------|--|---|-------------------------------------|
|                       |          | Quoted Prices<br>in Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |
| At June 30, 2018:     |          |  |   |                                     |
| Cash equivalents      | \$75,043 | \$75,043   | \$  | —\$                                 |
| At December 31, 2017: |          |  |   |                                     |
| Cash equivalents      | \$70,298 | \$70,298   | \$  | —\$                                 |

The Company had no transfers of assets between any of the above levels during the six months ended June 30, 2018 or 2017.

Cash equivalents include treasury bills and money market funds that invest in United States government obligations and Canadian investment accounts, all with original maturities of three months or less. The original costs of these assets approximate fair value due to their short-term maturities.

## Other Financial Instruments:

At June 30, 2018, the carrying value of the Company's debt was \$248.8 million, net of \$1.2 million of unamortized debt issuance costs. At December 31, 2017, the carrying value was \$248.1 million, net of \$1.9 million of unamortized debt issuance costs. The estimated fair value of the debt was approximately \$250.0 million at June 30, 2018 and \$250.3 million at December 31, 2017. The fair value of the Company's 9½% Senior Notes is based on quoted market prices (Level 1 inputs).

## NOTE H-STATEMENT OF CASH FLOW INFORMATION

Cash and cash equivalents at June 30, 2018 and December 31, 2017 included \$0.1 million and \$0.6 million, respectively of restricted cash related to collateral on seismic operations bonds.

For purposes of the statement of cash flows, the Company considers all highly liquid investments or debt instruments with an original maturity of three months or less to be cash equivalents. The Company maintains its day-to-day operating cash and temporary excess cash with various banking institutions that, in turn, invest in time deposits and U.S. Treasury bills.

Income taxes paid during the six months ended June 30, 2018 and 2017 were \$4.2 million and \$0.7 million, respectively. During the six months ended June 30, 2018, the Company also received income tax refunds totaling \$0.5 million.

The Company had non-cash additions to its seismic data library comprised of the following (in thousands):

|  |          |
|--|----------|
|  | Six      |
|  | Months   |
|  | Ended    |
|  | June 30, |
|  | 2018     |
| Non-monetary exchanges related to resale licensing | \$-1,250 |





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Non-cash revenue consisted of the following (in thousands):

|   | Six Months<br>Ended<br>June 30,<br>20182017 |         |
|---|---|---------|
| Acquisition revenue on underwriting from non-monetary exchange contracts                        | \$—   | \$126   |
| Licensing revenue from specific data licenses and selections on non-monetary exchange contracts | 63  | 1,250   |
| Solutions and other revenue recognized from non-monetary exchange contracts                     | 34  | 31      |
| Total non-cash revenue  | \$97  | \$1,407 |

**NOTE I-COMMITMENTS AND CONTINGENCIES**

The Company is involved from time to time in ordinary, routine claims and lawsuits incidental to its business. In the opinion of management, uninsured losses, if any, resulting from the ultimate resolution of these matters should not be material to the Company's financial position, results of operations or cash flows. However, it is not possible to predict or determine the outcomes of the legal actions brought against it or by it, or to provide an estimate of all additional losses, if any, that may arise. At June 30, 2018, the Company has recorded the estimated amount of potential exposure it may have with respect to claims. Such amounts are not material to the financial statements.

**NOTE J-RECENT ACCOUNTING PRONOUNCEMENTS**

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" with the objective of increasing transparency and comparability among organizations by requiring lessees to recognize assets and liabilities on the balance sheet for the present value of the rights and obligations created by all leases with terms of more than 12 months. The ASU will also require disclosures designed to give financial statement users information on the amount, timing and uncertainty of cash flows arising from leases. The amendments in this ASU are to be applied using a modified retrospective approach and will be effective for the Company as of January 1, 2019, but early adoption is permitted. The Company is currently evaluating the impact of adopting this new standard on its consolidated financial statements as of January 1, 2019 and believes that the most significant change will be to the Company's balance sheet as its asset and liability balances will increase for operating leases that are currently off-balance sheet.

Other new pronouncements issued but not yet effective are not expected to have a material impact on the Company's financial position, results of operations or liquidity.

**NOTE K-SUPPLEMENTAL GUARANTORS CONSOLIDATING CONDENSED FINANCIAL INFORMATION**

On March 20, 2013, the Company completed a private placement of 9½% Senior Notes in the aggregate principal amount of \$250.0 million. The Company's payment obligations under the 9½% Senior Notes are jointly and severally guaranteed on a senior basis by substantially all of the Company's significant 100% owned U.S. subsidiaries ("Guarantor Subsidiaries"). All subsidiaries of the Company that do not guarantee the 9½% Senior Notes are referred to as Non-Guarantor Subsidiaries.

The indenture governing the 9½% Senior Notes provides that the guarantees by the Guarantor Subsidiaries will be released in the following customary circumstances: (i) upon a sale or other disposition, whether by merger, consolidation or otherwise, of the equity interests of that guarantor to a person that is not the Company or a restricted subsidiary of the Company; (ii) the guarantor sells all or substantially all of its assets to a person that is not the Company or a restricted subsidiary of the Company; (iii) the guarantor is properly designated as an unrestricted subsidiary or ceases to be a restricted subsidiary; (iv) upon legal defeasance of the 9½% Senior Notes or satisfaction and discharge of the indenture governing the 9½% Senior Notes; (v) the guarantor becomes an immaterial subsidiary or (vi) the guarantor, having also been a guarantor under a credit facility, is released from its guarantee obligations under a credit facility and does not guarantee any indebtedness of the Company or the Guarantor Subsidiaries.

The consolidating condensed financial statements are presented below and should be read in connection with the condensed consolidated financial statements of the Company. Separate financial statements of the Guarantor Subsidiaries are not presented because (i) the Guarantor Subsidiaries are wholly-owned and have fully and unconditionally guaranteed the 9½% Senior Notes on a joint and several basis and (ii) the Company's management has determined such separate financial statements are not material to investors.



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The following consolidating condensed financial information presents the consolidating condensed balance sheets as of June 30, 2018 and December 31, 2017, the consolidating condensed statements of operations and statements of comprehensive income (loss) for the three and six months ended June 30, 2018 and June 30, 2017 and the consolidating condensed statements of cash flows for the six months ended June 30, 2018 and 2017 of (a) the Company; (b) the Guarantor Subsidiaries; (c) the Non-Guarantor Subsidiaries; (d) elimination entries; and (e) the Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries on a consolidated basis.

Investments in subsidiaries are accounted for under the equity method. The principal elimination entries eliminate investments in subsidiaries, intercompany balances, intercompany transactions and intercompany sales.

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## CONSOLIDATING CONDENSED BALANCE SHEET

As of June 30, 2018

(In thousands)

|   | Parent           | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Eliminations | Consolidated<br>Total |
|---|------------------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| <b>ASSETS</b>                                     |                  |                           |                                   |                               |                       |
| Cash and cash equivalents                         | \$—              | \$ 52,178                 | \$ 22,975                         | \$—                           | \$ 75,153             |
| Receivables                                       |                  |                           |                                   |                               |                       |
| Trade, net  | —                | 8,986                     | 882                               | —                             | 9,868                 |
| Notes and other                                   | 2,357            | 25                        | 201                               | —                             | 2,583                 |
| Due from Seitel Holdings, Inc.                    | —                | 1,198                     | —                                 | —                             | 1,198                 |
| Intercompany receivables (payables)               | (87,965 )        | 85,938                    | 2,027                             | —                             | —                     |
| Investment in subsidiaries                        | 412,751          | 422,925                   | 653                               | (836,329 )                    | —                     |
| Net seismic data library                          | —                | 50,753                    | 13,841                            | —                             | 64,594                |
| Net property and equipment                        | —                | 565                       | 861                               | —                             | 1,426                 |
| Prepaid expenses, deferred charges and other      | 211              | 2,640                     | 2,064                             | —                             | 4,915                 |
| Intangible assets, net                            | 900              | —                         | —                                 | —                             | 900                   |
| Goodwill  | —                | 105,170                   | 73,810                            | —                             | 178,980               |
| Deferred income taxes                             | —                | 53                        | 166                               | —                             | 219                   |
| <b>TOTAL ASSETS</b>                               | <b>\$328,254</b> | <b>\$ 730,431</b>         | <b>\$ 117,480</b>                 | <b>\$ (836,329 )</b>          | <b>\$ 339,836</b>     |
| <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>       |                  |                           |                                   |                               |                       |
| <b>LIABILITIES</b>                                |                  |                           |                                   |                               |                       |
| Accounts payable and accrued liabilities          | \$5,007          | \$ 6,320                  | \$ 2,513                          | \$—                           | \$ 13,840             |
| Income taxes payable                              | 12               | 21                        | —                                 | —                             | 33                    |
| Senior Notes                                      | 248,834          | —                         | —                                 | —                             | 248,834               |
| Obligations under capital leases                  | —                | —                         | 1,166                             | —                             | 1,166                 |
| Deferred revenue                                  | —                | 13,843                    | 1,343                             | —                             | 15,186                |
| Deferred income taxes                             | —                | —                         | 748                               | —                             | 748                   |
| <b>TOTAL LIABILITIES</b>                          | <b>253,853</b>   | <b>20,184</b>             | <b>5,770</b>                      | <b>—</b>                      | <b>279,807</b>        |
| <b>STOCKHOLDER'S EQUITY</b>                       |                  |                           |                                   |                               |                       |
| Common stock                                      | —                | —                         | —                                 | —                             | —                     |
| Additional paid-in capital                        | 400,595          | —                         | —                                 | —                             | 400,595               |
| Parent investment                                 | —                | 764,105                   | 156,784                           | (920,889 )                    | —                     |
| Retained deficit                                  | (326,194 )       | (53,858 )                 | (30,326 )                         | 84,184                        | (326,194 )            |
| Accumulated other comprehensive loss              | —                | —                         | (14,748 )                         | 376                           | (14,372 )             |
| <b>TOTAL STOCKHOLDER'S EQUITY</b>                 | <b>74,401</b>    | <b>710,247</b>            | <b>111,710</b>                    | <b>(836,329 )</b>             | <b>60,029</b>         |
| <b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b> | <b>\$328,254</b> | <b>\$ 730,431</b>         | <b>\$ 117,480</b>                 | <b>\$ (836,329 )</b>          | <b>\$ 339,836</b>     |

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## CONSOLIDATING CONDENSED BALANCE SHEET

As of December 31, 2017

(In thousands)

|   | Parent           | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Eliminations | Consolidated<br>Total |
|---|------------------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| <b>ASSETS</b>                                     |                  |                           |                                   |                               |                       |
| Cash and cash equivalents                         | \$—              | \$43,380                  | \$27,201                          | \$—                           | \$70,581              |
| Receivables                                       |                  |                           |                                   |                               |                       |
| Trade, net  | —                | 19,183                    | 4,147                             | —                             | 23,330                |
| Notes and other                                   | 2,357            | 151                       | 109                               | —                             | 2,617                 |
| Due from Seitel Holdings, Inc.                    | —                | 1,191                     | —                                 | —                             | 1,191                 |
| Intercompany receivables (payables)               | (75,641 )        | 73,244                    | 2,397                             | —                             | —                     |
| Investment in subsidiaries                        | 411,423          | 425,736                   | 702                               | (837,861 )                    | —                     |
| Net seismic data library                          | —                | 57,703                    | 16,839                            | —                             | 74,542                |
| Net property and equipment                        | —                | 593                       | 1,006                             | —                             | 1,599                 |
| Prepaid expenses, deferred charges and other      | 31               | 1,164                     | 647                               | —                             | 1,842                 |
| Intangible assets, net                            | 900              | —                         | —                                 | —                             | 900                   |
| Goodwill  | —                | 107,688                   | 79,555                            | —                             | 187,243               |
| Deferred income taxes                             | —                | 51                        | 152                               | —                             | 203                   |
| <b>TOTAL ASSETS</b>                               | <b>\$339,070</b> | <b>\$730,084</b>          | <b>\$132,755</b>                  | <b>\$(837,861 )</b>           | <b>\$364,048</b>      |
| <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>       |                  |                           |                                   |                               |                       |
| <b>LIABILITIES</b>                                |                  |                           |                                   |                               |                       |
| Accounts payable and accrued liabilities          | \$5,007          | \$9,421                   | \$5,770                           | \$—                           | \$20,198              |
| Income taxes payable                              | —                | 12                        | 2,765                             | —                             | 2,777                 |
| Senior Notes                                      | 248,142          | —                         | —                                 | —                             | 248,142               |
| Obligations under capital leases                  | —                | —                         | 1,363                             | —                             | 1,363                 |
| Deferred revenue                                  | —                | 11,568                    | 1,527                             | —                             | 13,095                |
| Deferred income taxes                             | —                | —                         | 1,359                             | —                             | 1,359                 |
| <b>TOTAL LIABILITIES</b>                          | <b>253,149</b>   | <b>21,001</b>             | <b>12,784</b>                     | <b>—</b>                      | <b>286,934</b>        |
| <b>STOCKHOLDER'S EQUITY</b>                       |                  |                           |                                   |                               |                       |
| Common stock                                      | —                | —                         | —                                 | —                             | —                     |
| Additional paid-in capital                        | 400,592          | —                         | —                                 | —                             | 400,592               |
| Parent investment                                 | —                | 764,105                   | 156,782                           | (920,887 )                    | —                     |
| Retained deficit                                  | (314,671 )       | (55,022 )                 | (27,652 )                         | 82,674                        | (314,671 )            |
| Accumulated other comprehensive loss              | —                | —                         | (9,159 )                          | 352                           | (8,807 )              |
| <b>TOTAL STOCKHOLDER'S EQUITY</b>                 | <b>85,921</b>    | <b>709,083</b>            | <b>119,971</b>                    | <b>(837,861 )</b>             | <b>77,114</b>         |
| <b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b> | <b>\$339,070</b> | <b>\$730,084</b>          | <b>\$132,755</b>                  | <b>\$(837,861 )</b>           | <b>\$364,048</b>      |

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## CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Three Months Ended June 30, 2018

(In thousands)

|   | Parent    | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Eliminations | Consolidated<br>Total |
|---|-----------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| REVENUE   | \$—       | \$ 11,634                 | \$ 1,029                          | \$ (339 )                     | \$ 12,324             |
| EXPENSES:   |           |                           |                                   |                               |                       |
| Depreciation and amortization                               | —         | 6,291                     | 1,790                             | —                             | 8,081                 |
| Impairment of goodwill                                      | —         | 2,518                     | 1,978                             | —                             | 4,496                 |
| Cost of sales   | —         | 52                        | 55                                | (19 )                         | 88                    |
| Selling, general and administrative                         | 130       | 3,984                     | 1,013                             | (320 )                        | 4,807                 |
|   | 130       | 12,845                    | 4,836                             | (339 )                        | 17,472                |
| LOSS FROM OPERATIONS  | (130 )    | (1,211 )                  | (3,807 )                          | —                             | (5,148 )              |
| Interest income (expense), net                              | (6,407 )  | 261                       | 114                               | —                             | (6,032 )              |
| Foreign currency exchange gains                             | —         | —                         | 470                               | —                             | 470                   |
| Other income  | —         | 41                        | 22                                | —                             | 63                    |
| Loss before income taxes and equity in loss of subsidiaries | (6,537 )  | (909 )                    | (3,201 )                          | —                             | (10,647 )             |
| Provision (benefit) for income taxes                        | —         | 6                         | (842 )                            | —                             | (836 )                |
| Equity in loss of subsidiaries                              | (3,274 )  | (2,359 )                  | —                                 | 5,633                         | —                     |
| NET LOSS  | \$(9,811) | \$(3,274 )                | \$(2,359 )                        | \$ 5,633                      | \$(9,811 )            |

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## CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE LOSS

For the Three Months Ended June 30, 2018

(In thousands)

|  | Parent    | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Eliminations | Consolidated<br>Total |
|--|-----------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| Net loss                                 | \$(9,811) | \$ (3,274 )               | \$ (2,359 )                       | \$ 5,633                      | \$ (9,811 )           |
| Foreign currency translation adjustments | —         | —                         | (2,369 )                          | —                             | (2,369 )              |
| Comprehensive loss                       | \$(9,811) | \$ (3,274 )               | \$ (4,728 )                       | \$ 5,633                      | \$ (12,180 )          |

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## CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Three Months Ended June 30, 2017

(In thousands)

|  | Parent    | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Eliminations | Consolidated<br>Total |
|--|-----------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| REVENUE  | \$—       | \$ 19,291                 | \$ 5,010                          | \$ (601 )                     | \$ 23,700             |
| EXPENSES:  |           |                           |                                   |                               |                       |
| Depreciation and amortization  | —         | 18,366                    | 3,615                             | (12 )                         | 21,969                |
| Cost of sales  | —         | 317                       | (8 )                              | (276 )                        | 33                    |
| Selling, general and administrative  | 137       | 4,010                     | 1,183                             | (325 )                        | 5,005                 |
|  | 137       | 22,693                    | 4,790                             | (613 )                        | 27,007                |
| INCOME (LOSS) FROM OPERATIONS  | (137 )    | (3,402 )                  | 220                               | 12                            | (3,307 )              |
| Interest expense, net  | (6,039 )  | (145 )                    | (3 )                              | —                             | (6,187 )              |
| Foreign currency exchange gains (losses)   | —         | 2                         | (36 )                             | —                             | (34 )                 |
| Other income   | —         | —                         | 96                                | —                             | 96                    |
| Income (loss) before income taxes and equity in income<br>(loss) of subsidiaries | (6,176 )  | (3,545 )                  | 277                               | 12                            | (9,432 )              |
| Provision for income taxes   | —         | 1                         | 203                               | —                             | 204                   |
| Equity in income (loss) of subsidiaries  | (3,460 )  | 74                        | —                                 | 3,386                         | —                     |
| NET INCOME (LOSS)  | \$(9,636) | \$(3,472 )                | \$ 74                             | \$ 3,398                      | \$(9,636 )            |



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## CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the Three Months Ended June 30, 2017

(In thousands)

|  | Parent    | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Eliminations | Consolidated<br>Total |
|--|-----------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| Net income (loss)                        | \$(9,636) | \$ (3,472 )               | \$ 74                             | \$ 3,398                      | \$ (9,636 )           |
| Foreign currency translation adjustments | —         | —                         | 2,569                             | —                             | 2,569                 |
| Comprehensive income (loss)              | \$(9,636) | \$ (3,472 )               | \$ 2,643                          | \$ 3,398                      | \$ (7,067 )           |

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## CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Six Months Ended June 30, 2018

(In thousands)

|  | Parent     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Eliminations | Consolidated<br>Total |
|--|------------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| REVENUE  | \$—        | \$ 28,489                 | \$ 4,250                          | \$ (926 )                     | \$ 31,813             |
| EXPENSES:  |            |                           |                                   |                               |                       |
| Depreciation and amortization  | —          | 13,463                    | 4,929                             | —                             | 18,392                |
| Impairment of goodwill   | —          | 2,518                     | 1,978                             | —                             | 4,496                 |
| Cost of sales  | —          | 332                       | 56                                | (283 )                        | 105                   |
| Selling, general and administrative  | 260        | 8,653                     | 2,244                             | (643 )                        | 10,514                |
|  | 260        | 24,966                    | 9,207                             | (926 )                        | 33,507                |
| INCOME (LOSS) FROM OPERATIONS  | (260 )     | 3,523                     | (4,957 )                          | —                             | (1,694 )              |
| Interest income (expense), net   | (12,618 )  | 313                       | 219                               | —                             | (12,086 )             |
| Foreign currency exchange gains (losses)   | —          | (1 )                      | 1,113                             | —                             | 1,112                 |
| Other income   | —          | 50                        | 22                                | —                             | 72                    |
| Income (loss) before income taxes and equity in<br>income (loss) of subsidiaries | (12,878 )  | 3,885                     | (3,603 )                          | —                             | (12,596 )             |
| Provision (benefit) for income taxes   | —          | 47                        | (929 )                            | —                             | (882 )                |
| Equity in income (loss) of subsidiaries  | 1,164      | (2,674 )                  | —                                 | 1,510                         | —                     |
| NET INCOME (LOSS)  | \$(11,714) | \$ 1,164                  | \$ (2,674 )                       | \$ 1,510                      | \$(11,714 )           |

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## CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the Six Months Ended June 30, 2018

(In thousands)

|  | Parent     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Eliminations | Consolidated<br>Total |
|--|------------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| Net income (loss)                        | \$(11,714) | \$ 1,164                  | \$ (2,674 )                       | \$ 1,510                      | \$(11,714 )           |
| Foreign currency translation adjustments | —          | —                         | (5,589 )                          | 24                            | (5,565 )              |
| Comprehensive income (loss)              | \$(11,714) | \$ 1,164                  | \$ (8,263 )                       | \$ 1,534                      | \$(17,279 )           |

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## CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Six Months Ended June 30, 2017

(In thousands)

|   | Parent     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Eliminations | Consolidated<br>Total |   |
|---|------------|---------------------------|-----------------------------------|-------------------------------|-----------------------|---|
| REVENUE   | \$—        | \$ 33,093                 | \$ 12,144                         | \$ (942                       | ) \$ 44,295           |   |
| EXPENSES:   |            |                           |                                   |                               |                       |   |
| Depreciation and amortization                               | —          | 34,482                    | 9,775                             | (25                           | ) 44,232              |   |
| Cost of sales   | —          | 327                       | 6                                 | (290                          | ) 43                  |   |
| Selling, general and administrative                         | 260        | 8,637                     | 2,406                             | (652                          | ) 10,651              |   |
|   | 260        | 43,446                    | 12,187                            | (967                          | ) 54,926              |   |
| LOSS FROM OPERATIONS  | (260       | ) (10,353                 | ) (43                             | ) 25                          | (10,631               | ) |
| Interest expense, net                                       | (11,913    | ) (466                    | ) (18                             | ) —                           | (12,397               | ) |
| Foreign currency exchange gains (losses)                    | —          | 2                         | (87                               | ) —                           | (85                   | ) |
| Other income  | —          | —                         | 96                                | —                             | 96                    |   |
| Loss before income taxes and equity in loss of subsidiaries | (12,173    | ) (10,817                 | ) (52                             | ) 25                          | (23,017               | ) |
| Benefit for income taxes                                    | —          | (1                        | ) (1                              | ) —                           | (2                    | ) |
| Equity in loss of subsidiaries                              | (10,842    | ) (51                     | ) —                               | 10,893                        | —                     |   |
| NET LOSS  | \$(23,015) | \$(10,867                 | ) \$(51                           | ) \$ 10,918                   | \$(23,015             | ) |

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## CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the Six Months Ended June 30, 2017

(In thousands)

|  | Parent     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Eliminations | Consolidated<br>Total |
|--|------------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| Net loss                                 | \$(23,015) | \$(10,867 )               | \$ (51 )                          | \$ 10,918                     | \$(23,015 )           |
| Foreign currency translation adjustments | —          | —                         | 3,280                             | 111                           | 3,391                 |
| Comprehensive income (loss)              | \$(23,015) | \$(10,867 )               | \$ 3,229                          | \$ 11,029                     | \$(19,624 )           |

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## CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

For the Six Months Ended June 30, 2018

(In thousands)

|   | Parent     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Eliminations | Consolidated<br>Total |
|---|------------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| Cash flows from operating activities:                     |            |                           |                                   |                               |                       |
| Net cash provided by (used in) operating activities       | \$(12,127) | \$ 30,125                 | \$ 937                            | \$                            | —\$ 18,935            |
| Cash flows from investing activities:                     |            |                           |                                   |                               |                       |
| Cash invested in seismic data                             | —          | (9,154 )                  | (4,837 )                          | —                             | (13,991 )             |
| Cash paid to acquire property and equipment               | —          | (141 )                    | (32 )                             | —                             | (173 )                |
| Cash from sale of seismic data and property and equipment | —          | 32                        | 26                                | —                             | 58                    |
| Advances to Seitel Holdings, Inc.                         | —          | (7 )                      | —                                 | —                             | (7 )                  |
| Net cash used in investing activities                     | —          | (9,270 )                  | (4,843 )                          | —                             | (14,113 )             |
| Cash flows from financing activities:                     |            |                           |                                   |                               |                       |
| Principal payments on capital lease obligations           | —          | —                         | (138 )                            | —                             | (138 )                |
| Intercompany transfers                                    | 12,127     | (12,056 )                 | (71 )                             | —                             | —                     |
| Net cash provided by (used in) financing activities       | 12,127     | (12,056 )                 | (209 )                            | —                             | (138 )                |
| Effect of exchange rate changes                           | —          | (1 )                      | (111 )                            | —                             | (112 )                |
| Net increase (decrease) in cash and cash equivalents      | —          | 8,798                     | (4,226 )                          | —                             | 4,572                 |
| Cash and cash equivalents at beginning of period          | —          | 43,380                    | 27,201                            | —                             | 70,581                |
| Cash and cash equivalents at end of period                | \$—        | \$ 52,178                 | \$ 22,975                         | \$                            | —\$ 75,153            |

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## CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

For the Six Months Ended June 30, 2017

(In thousands)

|   | Parent     | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Eliminations | Consolidated<br>Total |
|---|------------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| Cash flows from operating activities:                     |            |                           |                                   |                               |                       |
| Net cash provided by (used in) operating activities       | \$(12,220) | \$ 17,498                 | \$ 15,576                         | \$                            | —\$ 20,854            |
| Cash flows from investing activities:                     |            |                           |                                   |                               |                       |
| Cash invested in seismic data                             | —          | (9,491 )                  | (6,610 )                          | —                             | (16,101 )             |
| Cash paid to acquire property and equipment               | —          | (149 )                    | (101 )                            | —                             | (250 )                |
| Cash from sale of seismic data and property and equipment | —          | —                         | 3                                 | —                             | 3                     |
| Advances to Seitel Holdings, Inc.                         | —          | (8 )                      | —                                 | —                             | (8 )                  |
| Net cash used in investing activities                     | —          | (9,648 )                  | (6,708 )                          | —                             | (16,356 )             |
| Cash flows from financing activities:                     |            |                           |                                   |                               |                       |
| Principal payments on capital lease obligations           | —          | —                         | (112 )                            | —                             | (112 )                |
| Intercompany transfers                                    | 12,220     | (12,220 )                 | —                                 | —                             | —                     |
| Net cash provided by (used in) financing activities       | 12,220     | (12,220 )                 | (112 )                            | —                             | (112 )                |
| Effect of exchange rate changes                           | —          | —                         | 460                               | —                             | 460                   |
| Net increase (decrease) in cash and cash equivalents      | —          | (4,370 )                  | 9,216                             | —                             | 4,846                 |
| Cash and cash equivalents at beginning of period          | —          | 47,971                    | 8,026                             | —                             | 55,997                |
| Cash and cash equivalents at end of period                | \$—        | \$ 43,601                 | \$ 17,242                         | \$                            | —\$ 60,843            |

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NOTE L-SUBSEQUENT EVENTS

The Company is a wholly-owned subsidiary of Seitel Holdings, Inc. (“Holdings”). Holdings is an investment entity in which ValueAct Capital Master Fund, L.P. (“ValueAct”) owned a majority interest and Centerbridge Capital Partners II, L.P. and Centerbridge Capital Partners SBS II, L.P. (together with Centerbridge Capital Partners II, L.P., “Centerbridge”) owned a minority interest. On July 17, 2018, Holdings, ValueAct and Centerbridge entered into a Securities Purchase Agreement through which Centerbridge exercised its rights under the Amended and Restated Securities Holders Agreement, dated May 23, 2011 to acquire all of ValueAct’s ownership interest in Holdings (previously defined as the “July 2018 Transaction”). The July 2018 Transaction resulted in a change of control at the Holdings level and Centerbridge now owns approximately 99.7% of the issued and outstanding shares of Holdings. The July 2018 Transaction will be accounted for as a business combination using the acquisition method in which a new basis of accounting at fair value is established in the acquirer’s financial statements for the assets acquired and liabilities assumed. The Company is currently evaluating whether the acquirer’s new accounting basis at fair value will be pushed-down to its subsequent financial statements.

Pursuant to Chief Executive Officer Mr. Robert D. Monson’s employment agreement, Mr. Monson was entitled to certain severance payments and benefits in the event his employment was terminated without cause, voluntarily or involuntarily after the July 2018 Transaction, including a cash severance payment in an amount equal to three times the sum of his base salary plus target bonus (the “Cash Payment”). On July 19, 2018, the Company entered into a letter agreement with Mr. Monson whereby the Company agreed to pay Mr. Monson an amount equal to the sum of the Cash Payment and a gross up for certain taxes, and in return Mr. Monson irrevocably waived certain rights and claims, including the right to receive additional severance payments and benefits under his employment agreement upon a future termination of his employment. As a result, the Company paid Mr. Monson \$5.5 million in July 2018 that will be reflected as an expense of the Company in its statement of operations for the quarter ending September 30, 2018.



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Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our condensed consolidated financial statements and the related notes to the condensed consolidated financial statements included elsewhere in this document. When we use the terms “we”, “us”, “our” or similar words in this disclosure, we are referring to Seitel, Inc. and its subsidiaries, unless the context otherwise requires.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q (this “Quarterly Report”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Statements contained in this report about our future outlook, prospects, strategies and plans, and about industry conditions, demand for seismic services and the future economic life of our seismic data are forward-looking, among others. All statements that express belief, expectation, estimates or intentions, as well as those that are not statements of historical fact, are forward-looking. The words “believe”, “expect”, “anticipate”, “estimate”, “project”, “propose”, “plan”, “target”, “foresee”, “should”, “intend”, “may”, “will”, “would” and similar expressions are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance, but represent our present belief, based on our current expectations and assumptions, with respect to future events and their potential effect on us. While we believe our expectations and assumptions are reasonable, they involve risks and uncertainties beyond our control that could cause the actual results or outcome to differ materially from the expected results or outcome reflected in our forward-looking statements. Such risks and uncertainties include, without limitation, actual customer demand for our seismic data and related services, the timing and extent of changes in commodity prices for natural gas, crude oil and condensate and natural gas liquids, conditions in the capital markets during the periods covered by the forward-looking statements, the effect of economic conditions, our ability to obtain financing on satisfactory terms if internally generated cash flows are insufficient to fund our capital needs, the impact on our financial condition as a result of our debt and our debt service, our ability to obtain and maintain normal terms with our vendors and service providers, our ability to maintain contracts that are critical to our operations, changes in the oil and gas industry or the economy generally and changes in the capital expenditure budgets of our customers, as well as the risk factors identified in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and updated in our Quarterly Report on Form 10-Q for the period ended March 31, 2018, both filed with the Securities and Exchange Commission (“SEC”).

The forward-looking statements contained in this report speak only as of the date hereof and readers are cautioned not to place undue reliance or project future results based on such forward-looking statements or present or prior earnings levels. Except as required by applicable law, we disclaim any duty to update or revise any forward-looking statements, whether as a result of new information, future events or any other reason. All forward-looking statements attributable to the Company or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to herein, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and updated in our Quarterly Report on Form 10-Q for the period ended March 31, 2018, both filed with the SEC and in our future periodic reports filed with the SEC.

Overview

General

We are a leading provider of onshore seismic data to the oil and gas industry in North America. We own an extensive library of onshore and offshore seismic data that we have accumulated since our inception in 1982 that we offer for license to exploration and production (“E&P”) companies. Our primary areas of focus are onshore United States and Canada and, to a lesser extent, offshore U.S. Gulf of Mexico. As a result of energy reform in Mexico, we began to expand our data library coverage into Mexico in 2015. We believe our data library is one of the largest onshore three-dimensional (“3D”) databases available for licensing in North America and includes leading positions in oil, liquids-rich and natural gas unconventional plays as well as conventional areas.

Our products and services are used by E&P companies in oil and gas exploration and development efforts to increase the probability of drilling success, to better delineate existing oil and gas fields and to augment their reservoir

completion and management techniques. In unconventional plays, E&P companies use seismic data as a development tool to better identify efficient drilling plans and maximize production by identifying and understanding a series of critical characteristics of the targeted resource. We generate revenue primarily by licensing data from our data library and from new data creation projects, which are substantially underwritten or paid for by our clients. By participating in underwritten, non-exclusive surveys or

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purchasing licenses to existing data, E&P companies can obtain access to surveys at reduced costs as compared to acquiring seismic data on a proprietary basis.

Crude oil prices have continued to strengthen, averaging over \$65 per barrel year-to-date, due to improved fundamentals. E&P companies continue to maintain cautious optimism for commodity prices and remain judicious with capital spending. As a result, our cash resales activity in the first half of 2018 remained relatively flat with the first half of 2017. We remain cautiously optimistic that we will see improvements in seismic spending from our E&P clients in the second half of 2018. We do, however, believe that seismic spending will continue to fluctuate quarter to quarter as E&P companies continue to closely evaluate spending levels. We believe our asset-light business model, variable cost structure and streamlined support structure allow us to respond to changes, both positive and negative, in the industry environment.

### Principal Factors Affecting Our Business

Our business is dependent upon a variety of factors, many of which are beyond our control. The following are those that we consider to be principal factors affecting our business.

**Demand for Seismic Data:** Demand for our products and services is cyclical due to the nature of the oil and gas industry. In particular, demand for our seismic data services depends upon exploration, production, development and field management spending by E&P companies and, in the case of new data creation, the willingness of these companies to forgo ownership in the seismic data. Capital expenditures by E&P companies depend upon several factors, including actual and forecasted oil and natural gas commodity prices, prospect availability and the companies' own short-term and long-term strategic plans. These capital expenditures may also be affected by worldwide economic or industry-wide conditions.

**Merger and Acquisition/Joint Venture Activity:** Merger and acquisition activity continues to occur within our client base. This activity could have a negative impact on seismic companies that operate in markets with a limited number of participating clients. However, we believe that, over time, this activity could have a positive impact on our business, as it should generate resale licensing revenue, result in increased vitality in the trading of mineral interests and result in the creation of new independent customers through the rationalization of staff within those companies affected by this activity.

Exploiting unconventional plays is a capital intensive endeavor and many technically proficient E&P companies remain capital constrained. These companies find themselves needing to sell their positions to, or create partnerships with, large well-capitalized companies in order to develop their recoverable resource base. Generally, contracts with our customers for the license of data do not permit sharing of the data among partners. As a result, these joint venture partners or new owners will often need to purchase a license to our seismic data for their own use.

**North America Drilling Activity:** The North American land rig count averaged over 1,100 rigs in the first half of 2018. As of July 27, 2018, the North American land rig count was 1,253. The North American land rig count is forecast to remain above 1,000 rigs in 2018.

**Availability of Capital for Our Customers:** E&P companies are expected to utilize cash flow from operations, bank debt and private equity as their primary sources of capital in 2018. The revolving credit facilities used by E&P companies have borrowing bases that are tied to the net present value of their reserves which will fluctuate based on commodity prices. Reductions in cash flows resulting from lower commodity prices since their peak in 2013, along with the reduced availability of credit and increased costs of borrowing, has had, and could continue to have, a material impact on the ability of such companies to obtain funding necessary to purchase our seismic data.

**Government Regulation:** Our operations and the operations of our third-party contractors are subject to a variety of federal, provincial, state, foreign and local laws and regulations, including environmental and health and safety laws. We invest financial and managerial resources to comply with these laws and related permit requirements and require our third-party contractors to do the same. Modification of existing laws or regulations and the adoption of new laws or regulations impacting exploration or production activities by oil and gas companies may have a material effect on our business operations.

### Key Performance Measures

Management considers, among others, the following performance and financial measures in evaluating and managing our operating performance and financial condition. Some of these measures are not calculated in accordance with United States generally accepted accounting principles, or GAAP. Generally, a non-GAAP measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. These non-GAAP measures are intended to supplement the presentation of our financial results that are prepared in accordance with GAAP and should not be considered substitutes for GAAP financial measures.

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Cash Resales: Cash resales represent new contracts for data licenses from our library, including data currently in progress, payable in cash. We believe cash resales are an important measure of our operating performance and are useful in assessing overall industry and client activity. Cash resales are likely to fluctuate quarter to quarter as they do not require the longer planning and lead times necessary for new data creation.

Cash resales for the three and six months ended June 30, 2018 and 2017 were as follows (in thousands):

| Three Months |           | Six Months |           |           |
|--------------|-----------|------------|-----------|-----------|
| Ended        |           | Ended      |           |           |
| June 30,     |           | June 30,   |           |           |
| 2018         | 2017      | 2018       | 2017      |           |
| Cash resales | \$ 11,538 | \$ 12,904  | \$ 25,820 | \$ 26,925 |

Cash EBITDA: Cash EBITDA represents cash generated from licensing data from our seismic library net of recurring cash operating expenses. We believe this measure is helpful in determining the level of cash from operations we have available for debt service and funding of capital expenditures (net of the portion funded or underwritten by our customers). Cash EBITDA includes cash resales plus all other cash revenues other than from data acquisitions, less cost of goods sold and cash selling, general and administrative expenses (excluding severance and other non-routine costs).

The following is a quantitative reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, cash flows from operating activities (in thousands):

|  | Three Months |          | Six Months Ended |           |
|--|--------------|----------|------------------|-----------|
|  | Ended        |          | June 30,         |           |
|  | 2018         | 2017     | 2018             | 2017      |
| Cash EBITDA  | \$7,250      | \$8,409  | \$16,382         | \$17,259  |
| Add (subtract) other components not included in cash EBITDA:   |              |          |                  |           |
| Cash acquisition underwriting revenue                          | 1,432        | 4,272    | 4,633            | 11,146    |
| Revenue recognition adjustments from contracts payable in cash | (1,344 )     | 4,974    | 190              | 3,898     |
| Severance and other non-routine costs                          | —            | (103 )   | (105 )           | (103 )    |
| Interest expense, net  | (6,032 )     | (6,187 ) | (12,086 )        | (12,397 ) |
| Amortization of deferred financing costs                       | 350          | 317      | 692              | 627       |
| Other cash operating income                                    | 9            | —        | 18               | —         |
| Current income tax benefit (expense)                           | 270          | (177 )   | (95 )            | (583 )    |
| Changes in operating working capital                           | (3,354 )     | (4,785 ) | 9,306            | 1,007     |
| Net cash provided by (used in) operating activities            | \$(1,419)    | \$6,720  | \$18,935         | \$20,854  |

Growth of Our Seismic Data Library: We regularly add to our seismic data library through four different methods: (1) recording new data; (2) buying ownership of existing data for cash; (3) obtaining ownership of existing data sets through non-monetary exchanges; and (4) creating new value-added products from existing data within our library. For the period from January 1, 2018 to August 9, 2018, we added approximately 400 square miles of seismic data to our library. As of August 9, 2018, we had over 400 square miles of seismic data in progress.

#### Critical Accounting Policies

We operate in one business segment, which consists of seismic data acquisition, seismic data licensing, seismic reproduction services and seismic data processing. On January 1, 2018, we adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” The adoption of the new revenue recognition standard did not have a material impact on our revenue recognition policies. Additionally, we adopted ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the

Test for Goodwill Impairment” on April 1, 2018 in order to simplify the measurement of goodwill impairment losses. See Note A, “Basis of Presentation” in the Condensed Consolidated Interim Financial Statements for further discussion of our adoption of new accounting standards in 2018.

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## Basis of Presentation

Our financial statements have been prepared assuming we will continue as a going concern. Our \$250.0 million 9½% senior notes (the “9½% Senior Notes”) mature on April 15, 2019. While we are currently evaluating our options to refinance all or a portion of this debt, no firm plans for refinancing have been reached. As a result of the debt maturing in less than one year from the issuance of our financial statements and having no firm plans in place related to a refinancing, substantial doubt is raised about our ability to continue as a going concern. The ability to continue as a going concern is dependent upon our ability to restructure or refinance at least a portion of our outstanding debt as it matures. There is no assurance that we will be able to refinance or extend principal payments due at maturity or pay them with proceeds of other capital transactions and our cash flow may not be sufficient to repay all such maturing debt. The accompanying financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

## Results of Operations

## Revenue

The following table summarizes the components of our revenue for the three and six months ended June 30, 2018 and 2017 (in thousands):

|  | Three Months<br>Ended<br>June 30,<br>2018 |          | Six Months<br>Ended<br>June 30,<br>2018 |          |
|--|---|----------|---|----------|
|  | 2018                                      | 2017     | 2018                                    | 2017     |
| Acquisition underwriting revenue:        |   |          |   |          |
| Cash underwriting                        | \$1,432                                   | \$4,272  | \$4,633                                 | \$11,146 |
| Underwriting from non-monetary exchanges | —   | 87       | —                                       | 126      |
| Total acquisition underwriting revenue   | 1,432                                     | 4,359    | 4,633                                   | 11,272   |
| Resale licensing revenue:                |   |          |   |          |
| Cash resales                             | 11,538                                    | 12,904   | 25,820                                  | 26,925   |
| Non-monetary exchanges                   | —   | 1,000    | —                                       | 1,250    |
| Revenue recognition adjustments          | (1,281 )                                  | 4,974    | 253                                     | 3,898    |
| Total resale licensing revenue           | 10,257                                    | 18,878   | 26,073                                  | 32,073   |
| Total seismic revenue                    | 11,689                                    | 23,237   | 30,706                                  | 43,345   |
| Solutions and other                      | 635                                       | 463      | 1,107                                   | 950      |
| Total revenue                            | \$12,324                                  | \$23,700 | \$31,813                                | \$44,295 |

Total revenue was \$12.3 million in the second quarter of 2018 compared to \$23.7 million in the second quarter of 2017. Acquisition underwriting revenue was \$1.4 million in the second quarter of 2018 compared to \$4.4 million in the second quarter of 2017. New data acquisition activity in the second quarter of 2018 was primarily focused in the Niobrara and Austin Chalk areas in the U.S. Total resale licensing revenue was \$10.3 million in the second quarter of 2018 compared to \$18.9 million in the second quarter of 2017. Cash resales were \$11.5 million in the second quarter of 2018 compared to \$12.9 million in the second quarter of 2017 as companies continued to be judicious in their capital spending. Non-monetary exchanges fluctuate quarter to quarter depending upon the data available for trade. No such opportunities occurred in the second quarter or first six months of 2018. Revenue recognition adjustments are non-cash adjustments to revenue and reflect the net amount of (i) revenue deferred as a result of all of the revenue recognition criteria not being met and (ii) the subsequent revenue recognition once the criteria are met. The \$6.3 million decrease in revenue recognition adjustments between the second quarters of 2017 and 2018 primarily resulted from a decrease in selections of data from library card contracts, an increase in deferrals associated with new licensing contracts and a decrease in revenue recognized on previously deferred direct licensing contracts.

Total revenue for the first six months of 2018 was \$31.8 million compared to \$44.3 million in the first six months of 2017. Acquisition underwriting revenue was \$4.6 million for the first six months of 2018 compared to \$11.3 million in the first six months of 2017. The decrease in acquisition revenue was due to a reduction between periods in the average cost per square mile of the specific data being acquired primarily due to the geographic location of the surveys coupled with a reduction in the average underwriting percentage in the first six months of 2018 compared to

2017. New data acquisition activity in the first six months of 2018 was focused in the Niobrara, Permian and Austin Chalk areas in the U.S. and in the Duvernay area in Canada. Total resale licensing revenue was \$26.1 million in the first six months of 2018 compared to \$32.1 million in the first six months of 2017. Cash resales for the first six months of 2018 were \$25.8 million compared to \$26.9 million in the first six months of 2017 reflecting continued disciplined capital spending by our E&P clients in 2018. Revenue recognition adjustments



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decreased \$3.6 million from the first six months of 2017 to the first six months of 2018 primarily due to a decrease in selections of data from library card contracts and a decrease in revenue recognized on previously deferred direct licensing contracts.

At June 30, 2018, we had a deferred revenue balance of \$15.2 million, compared to the December 31, 2017 balance of \$13.1 million. The deferred revenue balance was related to (i) deferred revenue on data acquisition projects, (ii) data licensing contracts where selection of specific data had not yet occurred, (iii) data licensing contracts with data products not yet available and (iv) data licensing contracts where any other revenue recognition criteria has not yet been met. The deferred revenue will be recognized as work progresses on the data acquisition contracts, when selection of specific data is made by the customer, upon expiration of the data selection period specified in the data licensing contracts if full selection has not occurred, as the data products become available or as all of the revenue recognition criteria are met.

**Depreciation and Amortization**

The table below sets forth the components of depreciation and amortization and presents seismic data amortization as a percentage of total seismic revenue for the three and six months ended June 30, 2018 and 2017 (dollars in thousands):

|  | Three Months Ended |       | Six Months Ended |       |          |       |          |        |
|--|--------------------|-------|------------------|-------|----------|-------|----------|--------|
|  | June 30,<br>2018   | 2017  | June 30,<br>2018 | 2017  |          |       |          |        |
| Amortization of seismic data:          |                    |       |                  |       |          |       |          |        |
| Income forecast                        | \$2,702            | 23.1% | \$9,645          | 41.5% | \$7,402  | 24.1% | \$20,481 | 47.3%  |
| Straight-line                          | 5,268              | 45.1% | 12,201           | 52.5% | 10,769   | 35.1% | 22,971   | 53.0%  |
| Total amortization of seismic data     | 7,970              | 68.2% | 21,846           | 94.0% | 18,171   | 59.2% | 43,452   | 100.3% |
| Depreciation of property and equipment | 111                |       | 123              |       | 221      |       | 260      |        |
| Amortization of acquired intangibles   | —                  |       | —                |       | —        |       | 520      |        |
| Total                                  | \$8,081            |       | \$21,969         |       | \$18,392 |       | \$44,232 |        |

Total seismic data library amortization amounted to \$8.0 million in the second quarter of 2018 compared to \$21.8 million in the second quarter of 2017 and \$18.2 million for the first half of 2018 compared to \$43.5 million in the first half of 2017. The amount of seismic data library amortization fluctuates based on the level and location of specific seismic surveys licensed (including licensing resulting from new data acquisition) and selected by our customers during the period as well as the amount of straight-line amortization required under our accounting policy. Income forecast amortization as a percentage of total seismic revenue decreased from 2017 to 2018 primarily due to the mix of data being licensed including lower acquisition underwriting revenue, all such revenue being subject to amortization, and an increase in resale revenue recognized from data whose costs were fully amortized. In the three and six months ended June 30, 2018, the percentage of resale revenue recognized from data whose costs were fully amortized was 76% and 77%, respectively, as compared to 50% and 44% in the three and six months ended June 30, 2017. Straight-line amortization represents the expense required under our accounting policy to ensure the book value of our data is fully amortized within four years of when the data becomes available for licensing. The amount of straight-line amortization varies between periods due to the distribution of revenue among the various seismic surveys. The decrease in straight-line amortization was due to reduced capital expenditures attributed to seismic data beginning in 2014 and surveys from those higher capital expenditure years becoming fully amortized.

**Impairment of Goodwill**

In the second quarter of 2018, we recorded a goodwill impairment of \$4.5 million. Due to a change in ownership that occurred at our parent company level in July 2018, we assessed the recoverability of our goodwill as of June 30, 2018 and determined that an impairment was necessary. We compared the fair value of the reporting unit based on the purchase price paid in the July 2018 transaction to the carrying amount of the reporting unit and recorded a goodwill impairment for the amount by which the carrying amount exceeded the fair value.

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## Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses were \$4.8 million in the second quarter of 2018 compared to \$5.0 million in the second quarter of 2017 and \$10.5 million in the first six months of 2018 compared to \$10.7 million in the first six months of 2017. SG&A expenses are made up of the following cash and non-cash expenses (in thousands):

|                               | Three Months Ended |         | Six Months Ended |          |
|-------------------------------|--------------------|---------|------------------|----------|
|                               | June 30,           |         | June 30,         |          |
|                               | 2018               | 2017    | 2018             | 2017     |
| Cash SG&A expenses            | \$4,806            | \$4,997 | \$10,511         | \$10,645 |
| Non-cash compensation expense | 1                  | 8       | 3                | 6        |
| Total                         | \$4,807            | \$5,005 | \$10,514         | \$10,651 |

Cash SG&A expenses were consistent between comparable periods with no significant fluctuations in individual items.

## Income Taxes

Income tax expense (benefit) was \$(0.8) million in the second quarter of 2018 compared to \$0.2 million in the second quarter of 2017. The income tax benefit in the second quarter of 2018 was comprised of a \$0.4 million benefit related to our Canadian operations and a refund of previously paid interest totaling \$0.4 million related to the 2016 settlement of an appeal with Canada Revenue Agency on uncertain tax positions. The income tax expense in the second quarter of 2017 primarily related to our Canadian operations. The U.S. federal tax benefit resulting from our second quarter 2018 and 2017 U.S. operations of \$1.0 million and \$3.4 million, respectively, were offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized.

Income tax benefit was \$0.9 million for the six months ended June 30, 2018 and \$2,000 for the six months ended June 30, 2017. The benefit for the first six months of 2018 was comprised of a \$0.5 million benefit related to our Canadian operations and the \$0.4 million refund of interest discussed above. The U.S. federal tax benefit resulting from our U.S. operations for the first six months of 2018 and 2017 of \$1.3 million and \$7.9 million, respectively, were offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized. We continue to evaluate the provisions of U.S tax reform enacted in December 2017. At December 31, 2017, we performed a preliminary assessment of the net effects of tax reform and recognized a reasonable estimate of the impact in our year-end 2017 financial statements. As we did not have all the necessary information to analyze all income tax effects of tax reform, we are continuing to evaluate tax reform and will adjust the provisional amounts recorded as additional information is obtained. We are finalizing our determination of cumulative undistributed foreign earnings through December 31, 2017 and as of June 30, 2018, currently estimate the amount to be positive earnings and profits. However, the one-time transition tax on the deemed repatriation is expected to be offset against our 2017 net operating loss; therefore, no additional tax expense has been recorded. The ultimate impact of tax reform may differ from our provisional amounts due to changes in our interpretations and assumptions, as well as additional regulatory guidance that may be issued. We recorded no changes to our provisional amounts in the second quarter or first six months of 2018 and expect to complete our detailed analysis no later than the fourth quarter of 2018.

## Net Loss

Net loss was \$9.8 million in the second quarter of 2018 compared to \$9.6 million in the second quarter of 2017 and \$11.7 million in the first six months of 2018 compared to \$23.0 million in the first six months of 2017. The increase in net loss between the second quarter of 2017 and the second quarter of 2018 was primarily due to a decrease in total revenues and the goodwill impairment charge partially offset by a decrease in amortization expense associated with our seismic data library and an increase in income tax benefit. The decrease in net loss between the first six-month periods of 2017 and 2018 was primarily due to a decrease in amortization expense associated with our seismic data library and an increase in income tax benefit partially offset by a decrease in total revenues and the goodwill impairment charge.

## Liquidity and Capital Resources

As of June 30, 2018, we had \$75.2 million in consolidated cash, cash equivalents and short-term investments, including \$0.1 million of restricted cash. Cash held by our foreign subsidiaries fluctuates throughout the year and at June 30, 2018, was approximately \$22.9 million in Canada and less than \$50,000 in Mexico. Historically, the cash held by our foreign subsidiaries was reinvested indefinitely and was generally subject to U.S. income tax only upon repatriation to the U.S. However, U.S. tax reform enacted in 2017 imposed a one-time transition tax on the deemed repatriation of cumulative undistributed foreign earnings. We have analyzed our foreign working capital and cash requirements and the potential tax liabilities that would be

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attributable to a repatriation and currently expect that we will repatriate approximately \$20 million of cash in 2018 as a one-time distribution that was previously deemed to be permanently reinvested.

Our primary sources of liquidity are cash on hand and cash generated from operations.

**9½% Senior Unsecured Notes:** On March 20, 2013, we issued in a private placement \$250.0 million aggregate principal amount of our 9½% Senior Notes. Interest is payable in cash, semi-annually on April 15 and October 15 of each year. The notes mature on April 15, 2019. We are currently evaluating our options to refinance all or a portion of the 9½% Senior Notes; however, no firm plans for refinancing have been reached to date. To the best of our knowledge, we were in compliance with all covenants contained in the indenture governing our 9½% Senior Notes at June 30, 2018.

**Cash Flows from Operating Activities:** Cash flows provided by operating activities were \$18.9 million and \$20.9 million for the six months ended June 30, 2018 and 2017, respectively. Operating cash flows for 2018 decreased from 2017 primarily due to lower collections on acquisition underwriting revenue and higher income tax payments, partially offset by lower payments of annual incentive compensation.

**Cash Flows from Investing Activities:** Cash flows used in investing activities were \$14.1 million and \$16.4 million for the six months ended June 30, 2018 and 2017, respectively. Cash expenditures for seismic data were \$14.0 million and \$16.1 million for the six months ended June 30, 2018 and 2017, respectively. The decrease in cash invested in seismic data for 2018 compared to 2017 was due to a lower cost per square mile of the specific data being acquired primarily due to the geographic location of the surveys and also due to a reduction in cash purchases of seismic data, partially offset by working capital changes.

**Cash Flows from Financing Activities:** Cash flows used in financing activities were \$0.1 million for each of the six months ended June 30, 2018 and 2017.

**Anticipated Liquidity:** Our ability to cover our operating and capital expenses, make required debt service payments on our 9½% Senior Notes, incur additional indebtedness and comply with our various debt covenants will depend primarily on our ability to generate sufficient operating cash flows and on our ability to restructure or refinance our 9½% Senior Notes upon maturity. Our ability to satisfy our payment obligations and refinance our 9½% Senior Notes depends substantially on our future operating and financial performance, which necessarily will be affected by, and subject to, industry, market, economic and other factors. We can provide no assurances that we will be able to generate sufficient cash flow from operations and/or obtain any financing on satisfactory terms, if at all, to remain a going concern. We will not be able to predict or control many of these factors, such as economic conditions in the markets where we operate and competitive pressures.

**Deferred Taxes**

As of June 30, 2018, we had a net deferred tax liability of \$0.7 million attributable to our Canadian operations. In the United States, we had a federal deferred tax asset of \$61.5 million, which was fully offset by a valuation allowance. The recognition of the U.S. federal deferred tax asset will not occur until such time that it is more likely than not that some portion or all of the federal deferred tax asset will be realized. As of June 30, 2018, it was more likely than not that all of the U.S. federal deferred tax asset will not be realized. Additionally, in the U.S., we had a state deferred tax asset of \$0.9 million which was almost fully offset by a valuation allowance. The remaining state deferred tax asset of approximately \$53,000 was recognized as it is more likely than not that the state deferred tax asset will be realized. Lastly, we had a deferred tax asset of \$0.2 million related to our operations in Mexico that was recognized as of June 30, 2018 as it is more likely than not that the Mexico deferred tax asset will be realized.

**Off-Balance Sheet Transactions**

Other than operating leases, we do not maintain any off-balance sheet transactions, arrangements, obligations or other relationships with unconsolidated entities or others that are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenue or expense, results of operations, liquidity, capital expenditures or capital resources.

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## Capital Expenditures

During the six months ended June 30, 2018, capital expenditures for seismic data and property and equipment amounted to \$9.1 million on a gross basis and \$4.5 million on a net cash basis. Our capital expenditures for the first six months of 2018 are comprised of the following (in thousands):

|   | Six<br>Months<br>Ended<br>June 30,<br>2018 |
|---|--|
| New data acquisition                        | \$6,711                                    |
| Cash purchases and data processing          | 2,223                                      |
| Property and equipment                      | 173  |
| Total capital expenditures                  | 9,107                                      |
| Changes in working capital                  | 5,057                                      |
| Cash investment per statement of cash flows | \$14,164                                   |

Net cash capital expenditures represent total capital expenditures less cash underwriting revenue from our clients and non-cash additions to the seismic data library. We believe this measure is important as it reflects the amount of capital expenditures funded from our operating cash flow. The following table shows how our net cash capital expenditures (a non-GAAP financial measure) are derived from total capital expenditures, the most directly comparable GAAP financial measure (in thousands):

|                               | Six<br>Months<br>Ended<br>June 30,<br>2018 |
|-------------------------------|--|
| Total capital expenditures    | \$9,107                                    |
| Cash underwriting revenue     | (4,633 )                                   |
| Net cash capital expenditures | \$4,474                                    |

As of August 9, 2018, we had capital expenditure commitments related to data acquisition projects of approximately \$13.6 million, of which we have obtained approximately \$9.2 million of cash underwriting. We expect almost all of the \$4.4 million of committed net cash capital expenditures to be incurred in 2018. See discussion of our sources of liquidity under “Liquidity and Capital Resources” beginning on page 36 of this Quarterly Report.

## Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, including adverse changes in foreign currency exchange rates. Historically, we have not entered into financial instruments to mitigate these risks. We do not enter into derivative or other financial instruments for speculative or trading purposes.

Hypothetical changes in foreign currency exchange rates chosen for the estimated sensitivity analysis are considered to be reasonable near-term changes generally based on consideration of past fluctuations in foreign currency exchange rates. However, since it is not possible to accurately predict future changes in foreign currency exchange rates, these hypothetical changes may not necessarily be an indicator of probable future fluctuations.

The following information about our market-sensitive financial instruments constitutes a “forward-looking statement.”

## Foreign Currency Exchange Rate Risk

Our Canadian subsidiary conducts business in the Canadian dollar and is therefore subject to foreign currency exchange rate risk on cash flows related to sales, expenses, financing and investing transactions in currencies other than the U.S. dollar. Currently, we do not have any open forward exchange contracts.

Additionally, certain intercompany balances between our U.S. and Canadian subsidiaries and a portion of cash held by our Canadian subsidiaries are denominated in U.S. dollars. Since this is not the functional currency of our Canadian subsidiary, the changes in these balances are translated in our Consolidated Statements of Operations. As a result, we

are exposed to foreign exchange risk as it relates to these balances. A sensitivity analysis on the balance as of June 30, 2018 indicates that if the U.S. dollar strengthened or weakened 3% (determined using an average of the last three years' historical exchange rates) against the Canadian dollar, the effect upon our Consolidated Statements of Operations would be approximately \$0.7 million.

We have not had any significant changes in our market risk exposures during the quarter ended June 30, 2018.

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Item 4. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and President and our Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), pursuant to Exchange Act Rule 13a-15. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon that evaluation, our Chief Executive Officer and President along with our Chief Financial Officer concluded that the Company's disclosure controls and procedures as of June 30, 2018 were not effective due to the material weakness in internal control over financial reporting described below.

A material weakness is a deficiency, or a combination of deficiencies, within the meaning of Public Company Oversight Board ("PCAOB") Audit Standard 2201, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Management has identified the following material weakness which has caused management to conclude that as of June 30, 2018 our internal control over financial reporting were not effective at the reasonable assurance level.

Effective April 1, 2018, the Company adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") No. 2017-04, "Intangibles - Goodwill and other (Topic 350): Simplifying the Test for Goodwill Impairment" and performed a goodwill impairment test as of June 30, 2018. When performing the goodwill impairment test at June 30, 2018 pursuant to this new standard, the Company initially made an adjustment for foreign currency translation adjustments when determining the carrying amount of the Company's reporting unit as of June 30, 2018. The Company's independent auditors submitted that this adjustment should not be made. Upon further review of the ASU and discussion with an outside consultant, the Company determined that this adjustment should not be made and revised the amount of the goodwill impairment recorded in its financial statements for the six months ended June 30, 2018. The issue was resolved prior to the issuance of the Company's June 30, 2018 financial statements and disclosure of the issue was made to the Company's Audit Committee.

Notwithstanding the existence of the material weakness in the Company's internal control over financial reporting, the Company's management believes that the condensed consolidated financial statements included in this Form 10-Q fairly present in all material respects the Company's financial condition, results of operations and cash flows for the periods presented.

b) Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 1. LEGAL PROCEEDINGS

See Part I, Item 1, Note I to Condensed Consolidated Interim Financial Statements, which is incorporated herein by reference.

**Item 1A. RISK FACTORS**

For a discussion of our potential risks and uncertainties, see the information under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017, as amended, initially filed with the SEC on February 16, 2018, and as updated under the heading “Item 1A. Risk Factors” in our Quarterly Report on Form 10-Q for the period ended March 31, 2018 filed with the SEC on May 10, 2018, and the other information set forth elsewhere in this Quarterly Report on Form 10-Q. You should be aware that these risk factors and other information may not describe every risk we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may materially adversely affect our business, financial condition and/or results of operations. Except as previously disclosed in our Quarterly Report on Form 10-Q for the period ended March 31, 2018, there have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.



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## Item 6. EXHIBITS

| Exhibit<br>No. | Description   |
|----------------|---|
| 3.1            | <u>Certificate of Incorporation of the Company (incorporated by reference from Exhibit 3.1 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).</u>                              |
| 3.2            | <u>Bylaws of Seitel, Inc. (incorporated by reference from Exhibit 3.2 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).</u>   |
| 10.1           | <u>Second Amended and Restated Securities Holders Agreement dated as of July 17, 2018 (incorporated by reference from Exhibit 10.1 to the Seitel, Inc. current report on Form 8-K, as filed with the SEC on July 19, 2018).</u> |
| 10.2           | † <u>Letter Agreement dated as of July 23, 2018 (incorporated by reference from Exhibit 10.1 to the Seitel, Inc. current report on Form 8-K, as filed with the SEC on July 26, 2018).</u>                                       |
| 31.1           | * <u>Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer.</u>   |
| 31.2           | * <u>Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer.</u>   |
| 32.1           | ** <u>Section 1350 Certification of Chief Executive Officer.</u>  |
| 32.2           | ** <u>Section 1350 Certification of Chief Financial Officer.</u>  |
| 101.INS        | * XBRL Instance Document.   |
| 101.SCH        | * XBRL Taxonomy Extension Schema Document.  |
| 101.CAL        | * XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.DEF        | * XBRL Taxonomy Extension Definition Linkbase Document.   |
| 101.LAB        | * XBRL Taxonomy Extension Label Linkbase Document.  |
| 101.PRE        | * XBRL Taxonomy Extension Presentation Linkbase Document.   |

† Management contract, compensation plan or arrangement.

\* Filed herewith.

\*\*Furnished, not filed.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SEITEL, INC.

Date: August 14, 2018 /s/ Robert D. Monson  
Robert D. Monson  
Chief Executive Officer and President  
(Duly Authorized Officer and Principal Executive Officer)

Date: August 14, 2018 /s/ Marcia H. Kendrick  
Marcia H. Kendrick  
Chief Financial Officer  
(Duly Authorized Officer and Principal Financial Officer)